

Macroeconomy and Interest Rate Outlook

Ag Lenders Conference

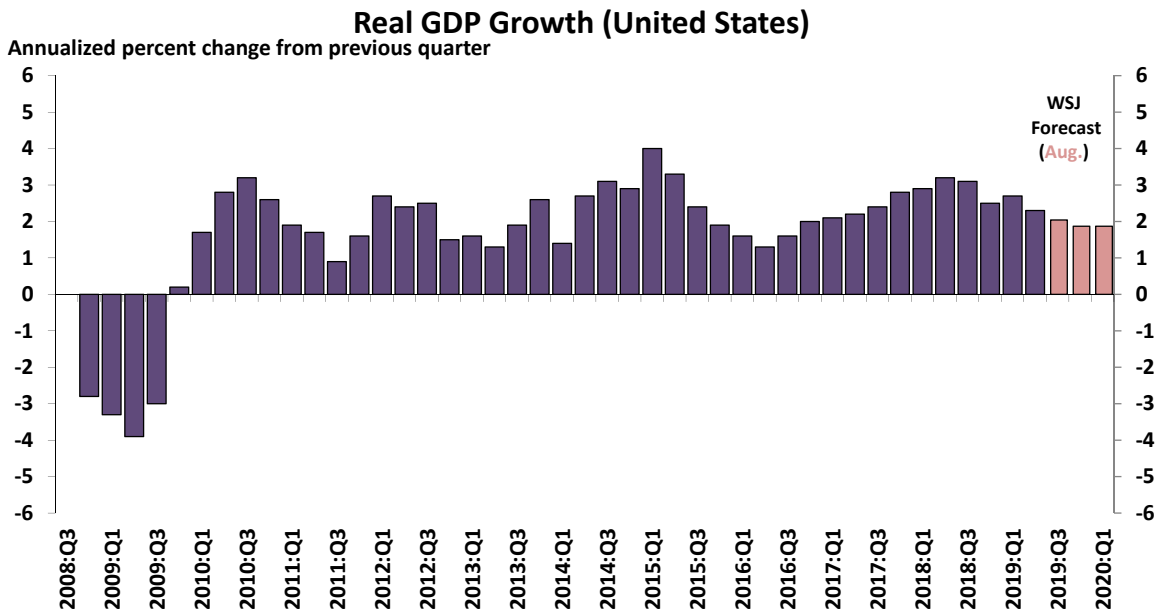
October 8-9, 2019

Brian C. Briggeman
Professor and
Director of the Arthur Capper Cooperative Center

KANSAS STATE
UNIVERSITY



Since the Great Recession, the economy has expanded for a record length of time...but at a moderate pace.



Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) August 2019 Forecast Survey (Average)

Many individuals, businesses, economists are worried about a pending recession because of a nearly inverted yield curve.

10-Year Treasury Minus 2-Year Treasury



Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) August 2019 Forecast Survey (Average)

ACCC

WILL THE UNITED STATES ENTER INTO A RECESSION?

ACCC

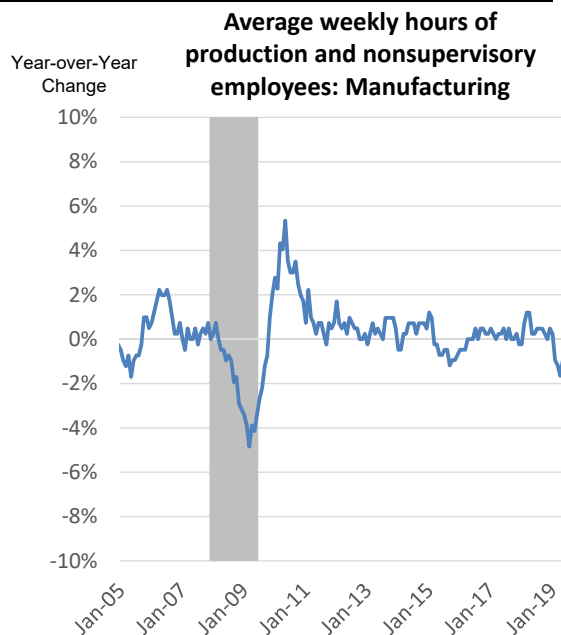
Consumption continues to climb.



Current labor markets bode well for future wage increases but there are concerns on the horizon.



Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics

The manufacturing sector is showing weakness.

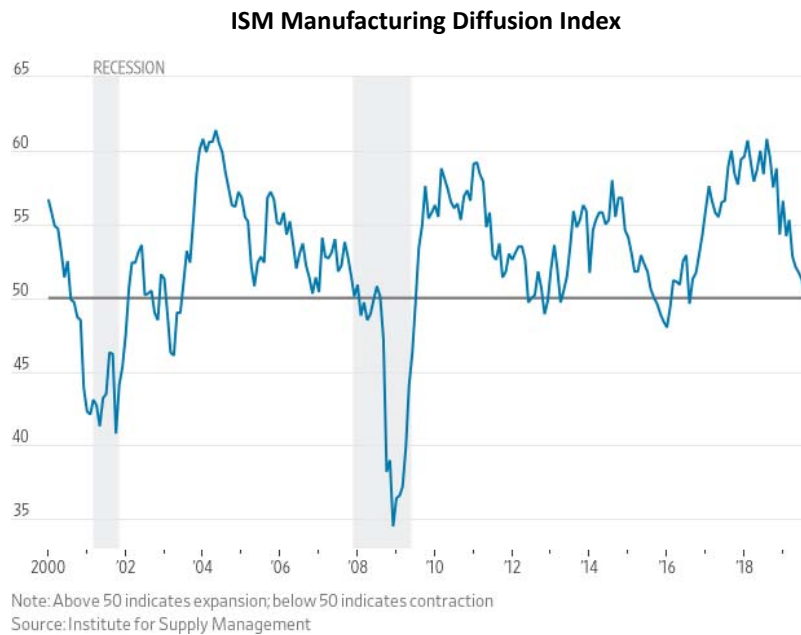
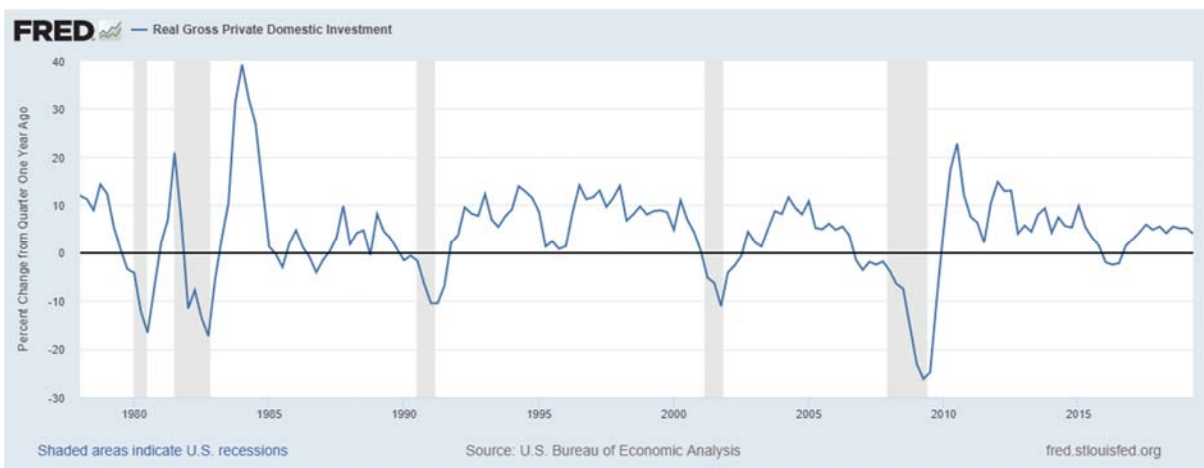


Image taken from Wall Street Journal

Private domestic investment continues to increase, which has been supported by residential investment. However, residential permits are declining.



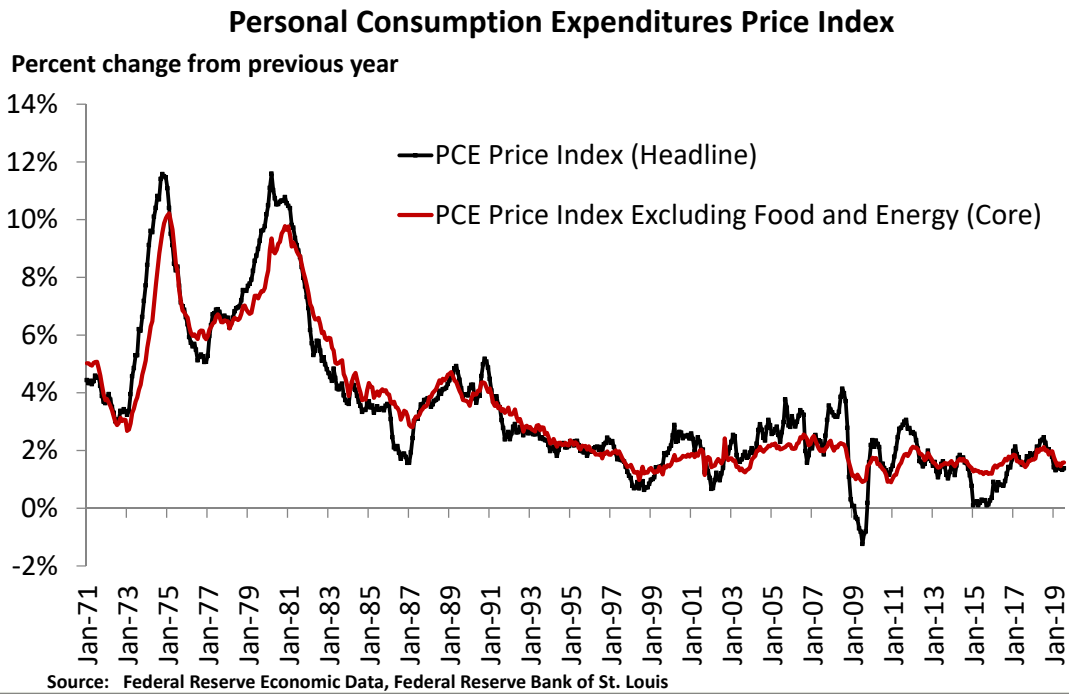
Exports of U.S. goods and services have improved since the initial trade conflict in 2016.



The Fed's recent lifting of interest rates provided support to a strengthening U.S. dollar.



Today's inflation is well below 1970s levels...



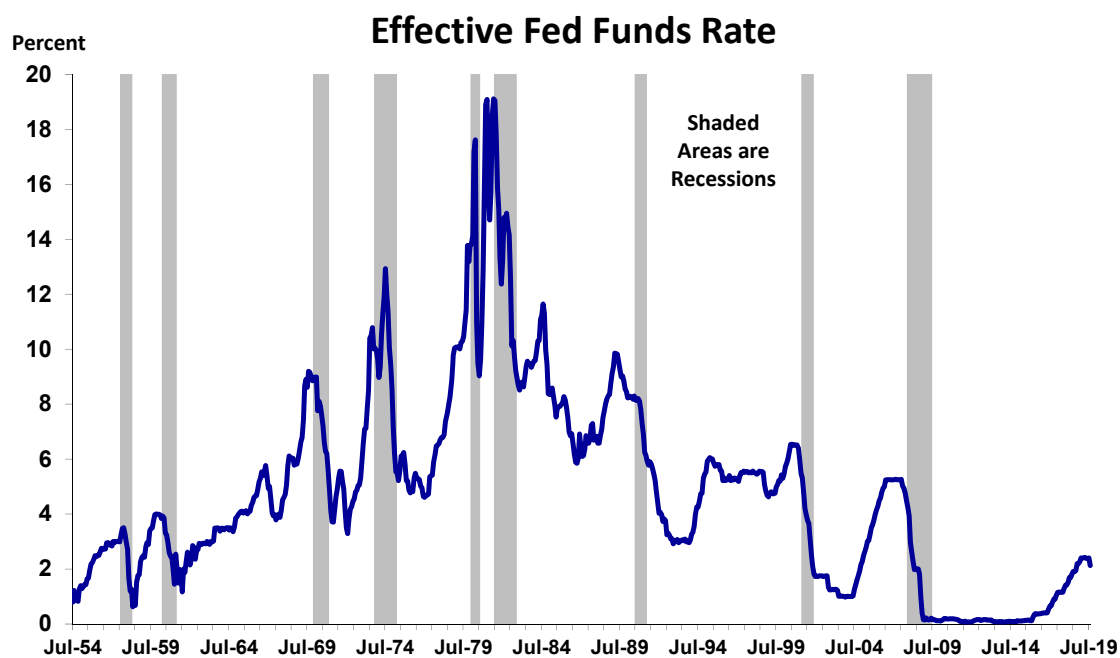
...and inflation expectations are low and continue to remain below the “2% target.”



Exceptional accommodative monetary policy has created quite the dialogue within the Fed.

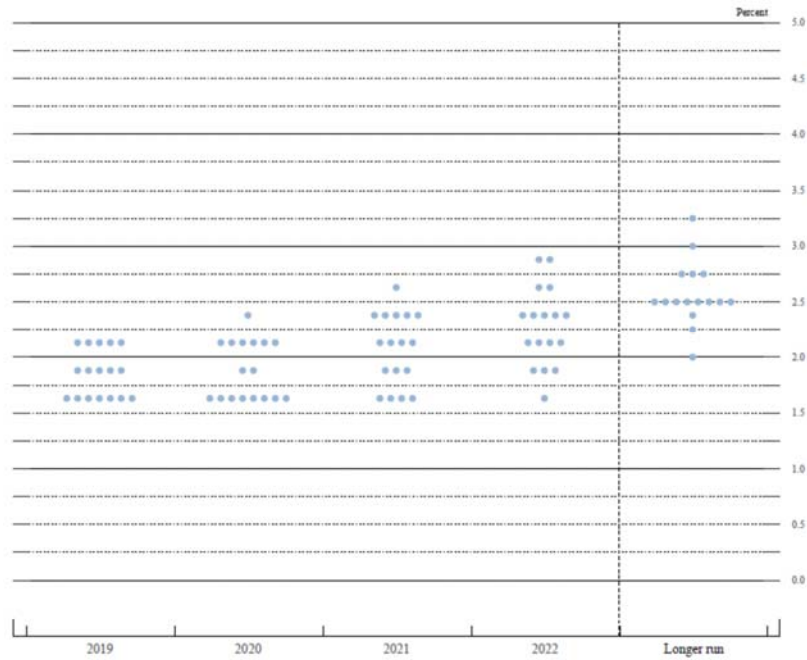
- In the Fed, it is a debate between:
 - Doves: Benefits of continued accommodative monetary policy to the economy outweigh the risk (international turmoil and deflation)
 - Hawks: The economy continues to improve and extraordinary accommodative policies may be promoting excessive risk taking behavior
- The market is clamoring for the Fed to further reduce interest rates...but will they?

With an improving economy, the FOMC started raising rates in December 2015 but have recently lowered them.



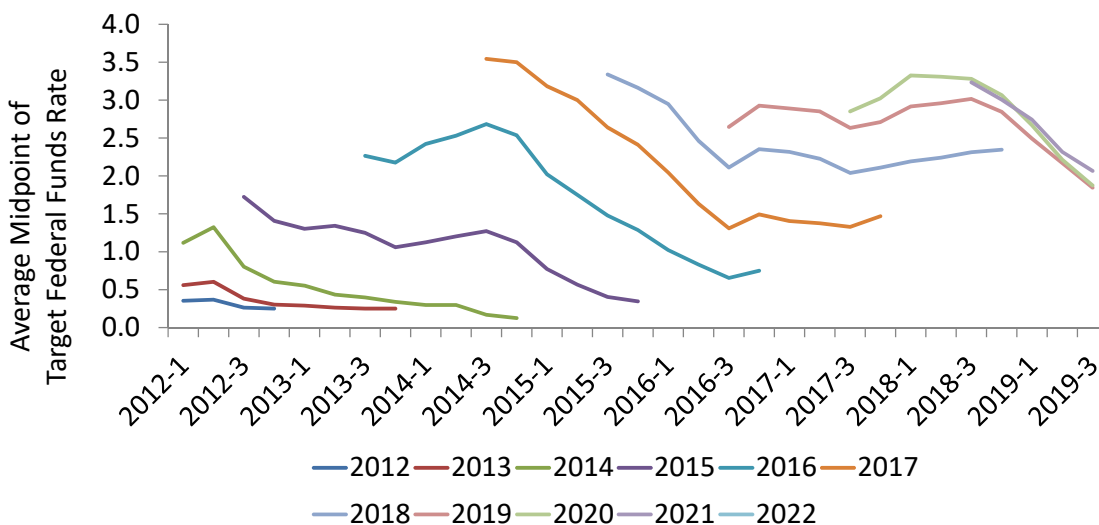
Source: Federal Reserve Board of Governors

The September 2019 FOMC dot plot shows future interest rates converging on the longer run rate.



During the beginning part of the economic recovery, Fed officials predicted higher, future rates. Recently, future rate predictions are trending lower.

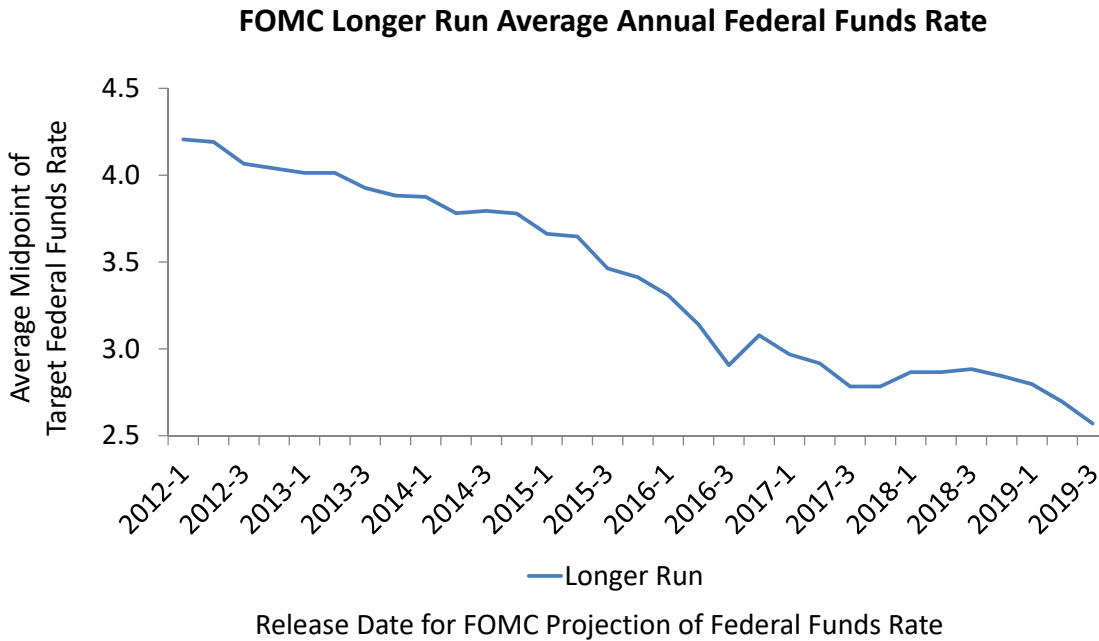
FOMC "Dot Plot" Average Annual Federal Funds Rates



Release Date for FOMC Projection of Federal Funds Rate

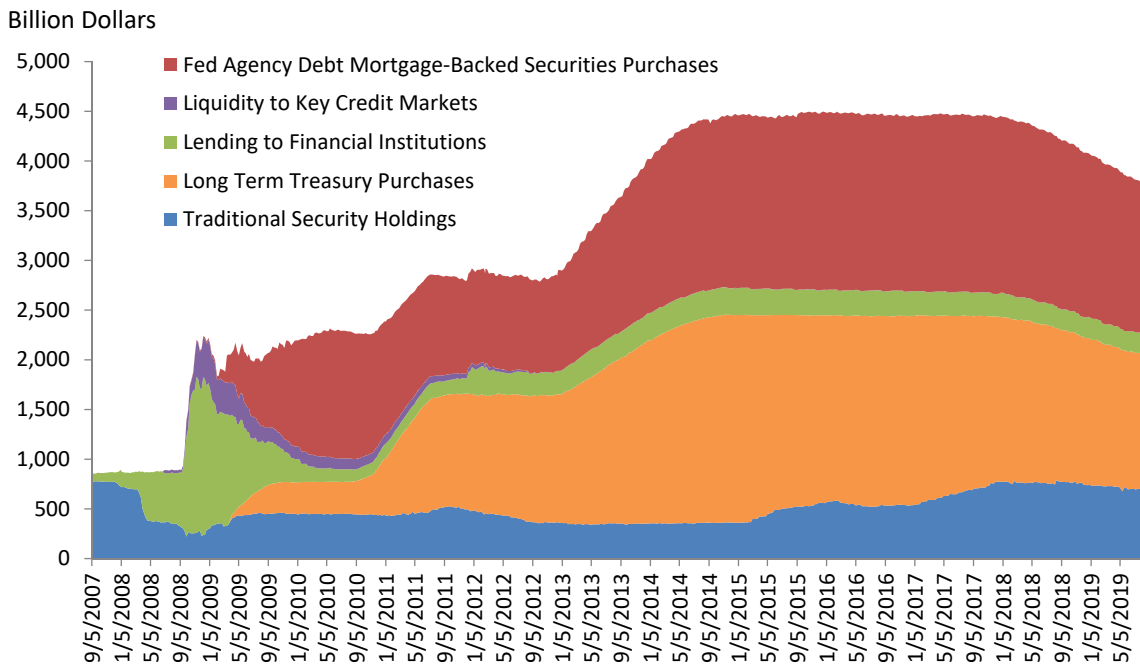
Source: Federal Reserve Board of Governors

Projected longer run Federal Funds Rate has steadily declined.



Source: Federal Reserve Board of Governors

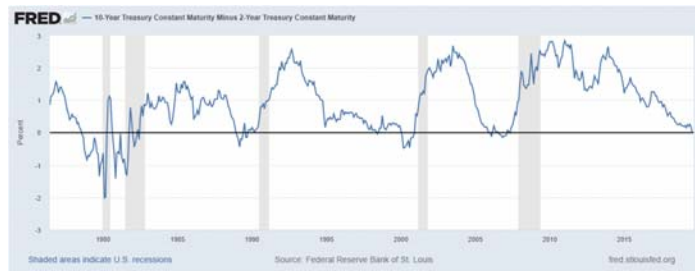
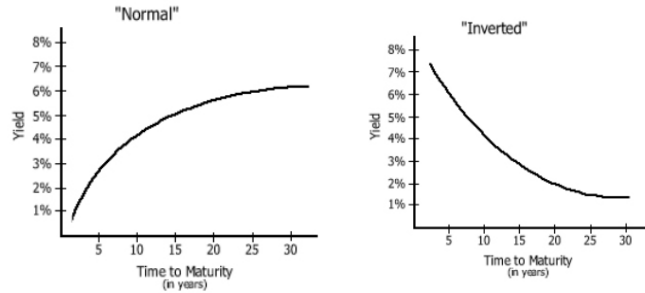
The Fed's balance sheet decline has slowed because a portion of proceeds from securities are now being reinvested.



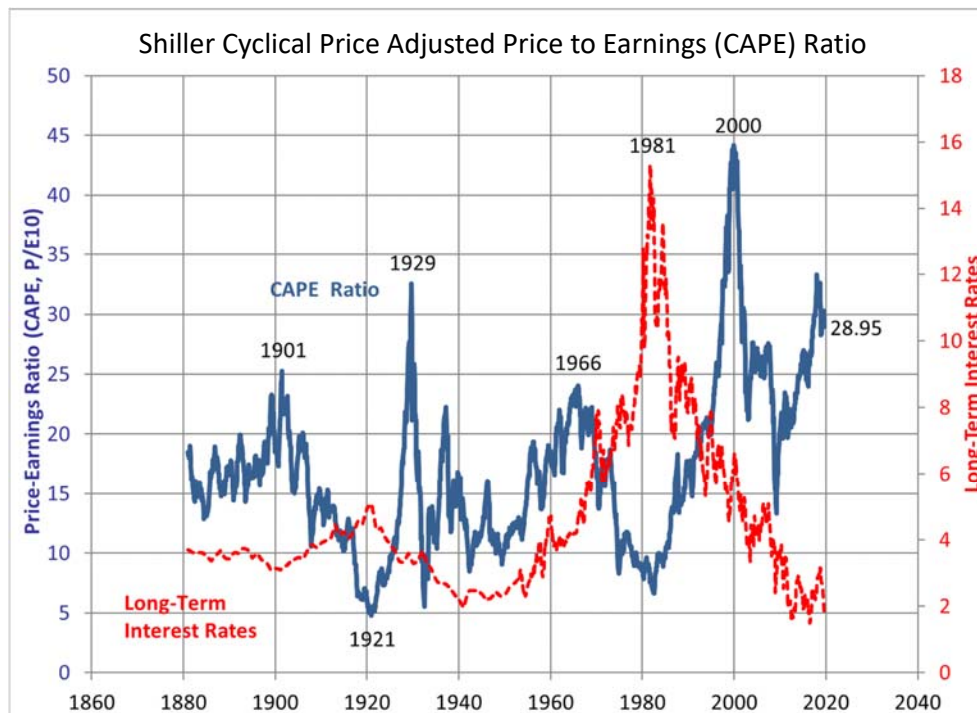
Source: Federal Reserve Bank of Cleveland

What are the implications of a “Fed created” positive spread?

- Shorter end of the yield curve is being held down by accommodative policy...so:
 - Why not reach for yield?
 - Why not use cheap short term funds to lower longer term loan rates?
 - Why lock in longer-term rates?
 - Why should I miss out on the party?



Is the stock market a bubble?



What do low, long term interest rates mean for U.S. agriculture?

- The decline in farmland values should be slow and measured...more of a leveling off
- Should help lower the value of the US dollar, which would generally help exports...but that is not happening...why?
- Keep debt costs low...definitely more relevant in today's tight margin environment
- With depressed net farm incomes and the prospects of a rise seemingly bleak, could low, long term interest rates stave off a "1980s" type bust?

ACCC 

Thank you. Questions?

Ag Lenders Conference

October 8-9, 2019

Brian C. Briggeman
Professor and

Director of the Arthur Capper Cooperative Center

KANSAS STATE
UNIVERSITY

ACCC 
Arthur Capper
Cooperative Center